An Roinn Airgeadais
Department of Finance

Our reference: 2017-3(a)

19 September 2017

Mr Brendan Howlin T.D.
The Labour Party
Leinster House
Kildare Street
Dublin, D02 A272

Dear Deputy Howlin,

I refer to The Labour Party's request to the Department for Budget 2018 costings (which we received on 26 August, 2017). I am pleased to enclose the responses to the costings sought.

The majority of the costings were provided by the Revenue Commissioners and/or this Department, however two costings were provided by other Departments:

- Costing 5 on PRSI was provided by the Department of Employment Affairs and Social Protection (enclosed as a separate document)
- Costing 14 on the National Training Fund Levy was provided by the Department of Education and Skills (included with the main set of costings)

Please note that the costing exercise did not examine the interaction of individual measures with other tax and/or expenditure measures.

No account has been taken of the second round impact of measures proposed, such as their positive or negative impact on economic growth, job creation, inflation or their impact on tax buoyancy.

It should be borne in mind that under the preventive arm of the Stability and Growth Pact, until Ireland has reached its objective of a balanced budget in structural terms, we may not introduce discretionary revenue reductions, over and above the available fiscal space permitted under the expenditure benchmark, unless they are matched by other revenue increases or expenditure reductions. Accordingly, tax reductions may have to be offset elsewhere.

The costings, including those provided by or in conjunction with other Departments, are provided on the basis that at no time will the Department be represented as endorsing the proposals costed. Equally, the Department will not comment on the merits or otherwise of those proposals. Where caveats or assumptions have been

Tithe an Rialtais
Sráid Mhuirfean Uacht
Baile Átha Cliath 2
D02 R583, Éire

Fón / Tel: 353 1 676 7571
Facs / Fax: 353 1 678 9936
Glao Áitiúil / LoCall: 1890 66 10 10
http://www.finance.gov.ie

Government Buildings
Upper Merrion Street
Dublin 2
D02 R583, Ireland

made in this response, the Departments' positions on such issues must be accurately, fully and fairly represented.

The Freedom of Information Act 2014 does not provide for an exemption for the costings of political parties proposals. Costings prepared by the Department in the context of the Budget will be treated in the same manner as all other pre–Budget submissions/requests. As is normal practice, the Department will publish the responses issued to these requests on its website, redacting on the basis of the Freedom of Information exemptions as appropriate. Costings prepared in the context of general elections or Programmes for Government will also be dealt with in accordance with relevant provisions of the Act.

If you have any queries on any of the above matters or costings, please do not hesitate to contact me.

Yours sincerely,

D Moran

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Derek Moran

Secretary General

Proposal 1 – Corporation Tax: increase in rate

1. Detailed description of item or policy on which a costing is required:

To determine yield for the following increases in the Corporation Tax rate:

A) Increase 12.5% rate for trading profits by either 0.5% or 1%

B) Increase the 25% rate for non-trading profits by 1%, 2% or 5%.

2. What assumptions/parameters do you wish the Department to make/specify?

Can the yield be modelled under two scenarios – i) rate increase does not impact on company location or activities, and ii) if the Department has a sensitivity model as to what an increase in the corporation tax rate would have on yield to provide an estimate of the yield using that scenario.

Response: It is not possible to accurately estimate the potential tax yield from increasing the trading and non-trading Corporation Tax rates.

On a straightforward mathematical basis there is a large **theoretical** yield from increasing the rates (over €500m from a 1% increase in the trading rate and around €20m from a 1% increase in the non-trading rate). However, such changes would likely lead to lower levels of economic activity, behavioural changes in the locational decisions of multinational companies and employment in the multinational sector. It is not possible to accurately or robustly estimate the potential behavioural changes from these changes.

Proposal 2 – Corporation Tax: R&D Tax Credit

1. Detailed description of item or policy on which a costing is required:

To determine the 2018 savings that would be made by ending the refundable element of the R&D tax credit from 1st January 2018

2. What assumptions/parameters do you wish the Department to make/specify?

To provide a costing under two scenarios: A) that the refundable element would cease completely from 1st January 2018 even for those claims already in process. B) That it is phased out over 3 years with no new claims from 1st January 2018, but those currently in train can continue to receive the refundable credit as was previously available. Under scenario B can the annual cost for 2018, 2019 and 2020 of retaining the refundable element be outlined.

Response: Data is not available in respect of expenditure on research and development from 2016 to 2018 (the expenditure years affected by the proposal). However, on the basis of refundable credits for recent years and excluding any once off factors, the theoretical yield from abolishing the refundable element for all claims (including those in process) could exceed €200 million in a full year. This does not take into account any potential negative effects such as on expenditure or employment in research and development related activities. A phased approach could lead to a potential yield of up to €70 million in 2019 an additional €70 million in 2020 and the remainder in 2021 when the tax returns for the year 2020 have been received

Proposal 3 – Introduction of minimum effective rates of corporation tax

1. Detailed description of item or policy on which a costing is required:

To determine the gains that would accrue to the exchequer over the years 2018-2021 from the introduction of a minimum effective corporation tax rate of 2%, 4%, 8%, 10% or 12%.

2. What assumptions/parameters do you wish the Department to make/specify?

We wish to assume that the introduction of this measure would impact on all profitable companies in each year, would be calculated as a share of total profits regardless of offsetting costs of expenses, and that the possible thresholds outlined above would be phased in over four years, as follows:

To achieve a minimum effective corporation tax rate of 2% by 2021, a rate of 0.5% would be set in 2018, increasing to 1.0% in 2019, 1.5% in 2020 and 2.0% in 2021.

To achieve a minimum effective corporation tax rate of 4% by 2021, a rate of 1% would be set in 2018, increasing to 2% in 2019, 3% in 2020 and 4% in 2021.

To achieve a minimum effective corporation tax rate of 8% by 2021, a rate of 2% would be set in 2018, increasing to 4% in 2019, 6% in 2020 and 8% in 2021.

To achieve a minimum effective corporation tax rate of 10% by 2021, a rate of 2.5% would be set in 2018, increasing to 5% in 2019, 7.5% in 2020 and 10% in 2021.

To achieve a minimum effective corporation tax rate of 12% by 2021, a rate of 3% would be set in 2018, increasing to 6% in 2019, 9% in 2020 and 12% in 2021.

Response: It is not possible to estimate the potential tax yield from introducing a minimum effective corporation tax rates. On a straightforward mathematical basis there is a large theoretical yield from introducing such a measure (though the yield would depend on the income definition used when introducing such a measure). However, this is highly unlikely to be realised as companies adjust their behaviour and activities in response. Predicting these responses in advance is not possible with a sufficient degree of accuracy to enable a reliable costing estimate to be provided.

Proposal 4 – Corporation Tax: capping of capital losses

1. Detailed description of item or policy on which a costing is required:

We are seeking to (1) establish the estimated level of capital losses current held on the balance sheets of companies registered in Ireland, (2) the anticipated period of time required to bring about a situation where 80% of those losses have been recouped allowing these companies to once again make tax returns, and (3) for an estimate to be provided of the revenue likely to accrue to the state if the law was changed to cap the length of time for which such losses could be offset against tax liabilities at 2 years (scenario a), 3 years (scenario b), 5 years (scenario c) and 10 years (scenario d).

2. What assumptions/parameters do you wish the Department to make/specify?

No additional assumptions/parameters

Response: It is assumed the proposal is referring to the losses reported in the trading panel of the Corporation Tax returns and not referring to losses in relation to capital gains. From information returned on Corporation Tax returns filed for the year 2015, there is over €206 billion losses available for carry forward for use in later years. This includes capital allowances that are unused from earlier years as they are returned as losses in later years and are not separately identifiable.

These historic losses are being offset as companies return to profitability. Some of these losses are being utilised very slowly and some are unlikely to ever be used as €40 billion is from companies in liquidation. Much of these losses relate to substantial losses incurred by companies during the downturn, however new losses or unused capital allowances are also created each year from some companies.

Approximately €21 billion of income was offset in 2015 as a result of claims in respect of losses. On the basis of profits and losses returned in 2015, it could take over 50 years before 80 per cent of the historic losses on file in 2015 will be used. This is because many companies with losses forward are not in a position to offset any of their losses forward at present. However, as companies return to profitability this may impact on the timeframe.

Timeline information in respect of losses is not available to show the age profile of losses and unused capital allowances associated with claims on the tax returns. However, it is likely that restricting the use of these losses (and unused capital allowances) could lead to theoretical gains in excess of €500 million depending on the scenario chosen. It should also be noted that if this change is made for companies, presumably it would have to be extended to self-employed taxpayers.

Proposal 5 – PRSI: Expansion of PRSI relief for low and middle income earners

Response: See separate reply material from the Department of Employment Affairs and Social Protection

Proposal 6 – Income Tax: Refundable Personal Tax Credits

1. Detailed description of item or policy on which a costing is required:

To determine the cost of providing refundable tax credits at the end of the financial year to both employed, and self-employed individuals who have earned at least €5,000, and if employed made at least 40 PRSI contributions in the year, but did not earn enough income to use all the tax credits they are eligible for as detailed below.

Personal Tax Credits to be made refundable: Single Person, Married person or civil partner, widowed person or surviving civil partner with dependent child(ren) or without dependent children, one parent family, age credit, home carer's tax credit, blind tax credits, guide dog allowance, incapacitated child tax credit, earned income tax credit.

2. What assumptions/parameters do you wish the Department to make/specify?

The refundable portion would either be returned to the individual when a P21 balancing statement is issued, and can either be paid as a lump sum, or added to their salary income over the period of the following year through their employer. Also outline any other relevant personal tax credits that should be included in such a proposal.

Response: Revenue has not undertaken an exercise to estimate a projected cost of refundable tax credits to the Exchequer or the administrative cost of establishing the necessary systems to facilitate the refund of tax credits.

Any such exercise in estimation would be highly complex as it would involve assumptions about the manner in which such a system would operate, the possible effects on individuals not currently in the tax net and how such a system might interact with any social protection payments. In the absence of a fully designed scheme of refundable tax credits that addresses all of the relevant issues outlined, an estimated cost of refunding of credits is not currently available.

This matter was looked at in some detail by the Working Group established under the Programme for Prosperity and Fairness to examine the role which refundable tax credits can play in the tax and welfare system. The Group was chaired by the Department of Finance and included representatives from ICTU, IBEC, the various farming organisations, the Community and Voluntary Pillar, relevant Government Departments and the Office of the Revenue Commissioners.

The Working Group found that there were significant disadvantages with such a system. These included the potential negative impacts on the incentive to work, labour supply, labour force participation and overall productivity and output. The Commission on Taxation in its 2009 report also did not recommend the introduction of refundable tax credits.

Proposal 7 – Income Tax: increase in tax credits and bands

1. Detailed description of item or policy on which a costing is required:

A) To determine the cost of increasing the personal tax credits by €100, €200 or €300 respectively.

B) The associated cost of increasing the earned income tax credit from €950 to €1,100, €1,300, €1650 or €1,750.

C) Increase the standard rate cut off point by i) €500, and ii) €1,000 for single, married one –earners and two earners.

D) Confirm cost of increasing home carer credit by i) €100, and ii) €200.

2. What assumptions/parameters do you wish the Department to make/specify?

For A) Outline the individual cost for each personal tax credit increase. For B) outline the number projected to benefit in 2017, 2018 and 2019 respectively, and the number that have availed of EITC in 2015 and 2016. For D) Outline the number of people expected to benefit in 2017, 2018 and 2019 respectively, and the number that availed of tax credit in 2015 and 2016 respectively.

Response: The estimated impact to the Exchequer of increasing the personal tax credits, the earned income tax credit, the home carer credit and the standard rate cut-off point may be found in the Pre-Budget 2018 Ready Reckoner, which can be accessed at:

http://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx.

The Ready Reckoner shows a range of scenarios, including some of those requested; others can be estimated on a straight-line or pro-rata basis from the information in the Ready Reckoner.

As regards (B) and (D), the numbers availing of the earned income credit in 2016 was 151,600 and home carer tax credit in 2015 was 80,900. These are the most recent years for which data are available (although the EIC figure is estimated based on 2015 incomes). Numbers availing in future years are not estimated, but are expected to be broadly in line with the 2015/2016 figures. Note that Revenue's PAYE Modernisation programme, to come into effect from the 1st of January 2019, may provide more timely data after its implementation.

Proposal 8 – Income Tax: Withdrawal of Tax Credits from High Earners

1. Detailed description of item or policy on which a costing is required:

The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 5% per €1k income, on all income in excess of either €80,000 (scenario 1) or €100,000 (scenario 2).

The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 15% per €1k income, on all income in excess of either €80,000 (scenario 3) or €100,000 (scenario 4).

The gain to the exchequer from a withdrawal of PAYE and Earned Income tax credits by 16.5% per €1k income, on all income in excess of either €80,000 (scenario 3) or €100,000 (scenario 4).

2. What assumptions/parameters do you wish the Department to make/specify?

The first two scenarios outlined in this proposal had been costed by the Tax Strategy Group in 2016 to take effect from 2018. We are seeking to have the same assumptions and parameters applied to cost this measure updated. Scenarios 3, 4, 5 and 6 replicate this approach, but with a more rapid withdrawal of tax credits as income increases.

Response: The first and full year yields for each of the measures are set out in the table below:

	First year (€ million)	**Full year (€ million)**
Scenario 1	408	462
Scenario 2	240	271
Scenario 3	486	550
Scenario 4	282	320
Scenario 5	490	554
Scenario 6	285	322

The estimates above have been generated by reference to projected 2018 incomes, generated on actual data for the year 2015, the latest year for which returns are available, after adjustments for income, self-employment and employment trends in the interim. The estimates are provisional and may be revised.

Given the current tax structures, major issues would need to be resolved as to how in practice such credit tapering could be integrated into the current system and how this would affect the relative position of different types of income earners.

These estimates are based on tax units, and jointly assessed couples are considered a single tax unit. Therefore the figures above have been calculated on the basis of the combined income of the tax unit, as individual incomes for each member of the tax unit are not available. For example, in the case of a jointly assessed couple earning €55,000 each, this would register as a tax unit earning €110,000, and the above estimates assume the withdrawal of two tax credits in such cases. Therefore, the estimates insofar as they relate to this cohort of tax units are very tentative.

Proposal 9 – Income Tax: Disability Tax Credit

1. Detailed description of item or policy on which a costing is required:

How much will it cost the Exchequer to introduce a Disability Tax Credit of €1,650 per year for single people and a tax credit of €3,000 for married or cohabiting couples. The Disability Tax Credit would cover disabilities as recognised under existing social welfare entitlements criteria.

2. What assumptions/parameters do you wish the Department to make/specify?

The cost of setting up a credit, the time it would take to be implemented, the financial criteria to be applied to applicants as is applied to the Blind Person's Tax Credit.

Response: As there is no data available on the number of taxpayers who would be eligible for the disability tax credit, or their ability to absorb the credit, there is no basis on which to estimate the cost of this measure.

Proposal 10 – Income Tax: Medical A&E Tax credit

1. Detailed description of item or policy on which a costing is required:

How much to establish a €3,300 Tax Credit for Medical Practitioners, employed or retired, to be awarded if they complete a minimum of 24 hours per quarter in A&E in their locality, to be able to treat patients presenting at A&E who could be easily treated outside of the bed areas.

2. What assumptions/parameters do you wish the Department to make/specify?

To assume that 200 people will take part in the first year, and to ensure that the tracking of such hours by hospital groups will be of a reasonable cost in this regard.

Response: Assuming 200 claimants would be entitled to claim and fully absorb the proposed €3,300 tax credit, the potential cost to the Exchequer is estimated to be in the order of €0.1 million. Revenue is unable to comment on the tracking of such hours by hospital groups or the cost of this of implementation or compliance with this proposal.

Proposal 11 – Income Tax: relief on rent credit

1. Detailed description of item or policy on which a costing is required:

The cost to re-introduce a relief for rent credit as existed up to 2010 but without any age bands and available to all tax payers at the standard rate of income tax for the following amounts of rent paid: i) €2,000; ii) €4,000 or iii) €8000.

2. What assumptions/parameters do you wish the Department to make/specify?

The cost for introduction in its first year, and the full year cost, and inclusive of a sunset clause of 5 years.

Response: The number availing of the rent relief tax credit, and the associated cost to the Exchequer, are available on the Revenue website at

http://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/costs-expenditures.aspx.

The credit is available to those paying for private rented accommodation. This includes rent paid for flats, apartments or houses. It does not include rent paid to local authorities. The credit is currently only available to a person who was renting on 7 December 2010. This tax credit will cease to be available after 31 December 2017.

As the rent relief tax credit is in the process of being phased out since 2010, tax returns do not provide a reliable basis for Revenue to accurately predict the numbers of tenants that could be eligible to claim a rent credit were it to be re-introduced for all tenants or the degree to which potential claimants could absorb the full amount of the credit. Therefore, there is no basis available to Revenue on which to estimate the potential cost of a rent credit reintroduction on the basis proposed.

Proposal 12 – Income Tax: Relief on trade union subscriptions

1. Detailed description of item or policy on which a costing is required:

A) To outline the cost of reintroducing tax relief at the standard rate on trade union subscriptions on the same basis as applied up to its abolition in 2011.

B) To also provide in tabular form the cost of providing tax or BIK relief on subscriptions to professional bodies for each year from 2011 to 2017 and the yield from abolishing it.

2. What assumptions/parameters do you wish the Department to make/specify?

A) The cost for introduction in its first year, and the full year cost. B) The yield in the first year, and yield in a full year.

Response: A) Tax relief on trade union subscriptions was allowed at a rate of 20% on subscriptions up to €350. This relief was discontinued in 2011. There are no current data on the number of taxpayers with union subscriptions, the cost of their individual union subscription, nor on the ability of the taxpayer to absorb the credit, therefore there is no basis for Revenue on which to estimate a cost for this measure.

B) Where an employer purchases a subscription to a professional body on behalf of an employee, this is deemed a benefit in kind and the employee is liable to pay Tax, USC and PRSI on the amount of the subscription. Where the subscription to a professional body is mandatory for the job, BIK tax relief is allowed. The cost of providing BIK relief is not available as, due to the way in which employers declare BIK on tax returns, it is not possible to separately identify BIK relating to subscriptions to professional bodies.

Proposal 13 - Introduction of a Minimum Unit Price on alcohol

1. Detailed description of item or policy on which a costing is required:

To assess the exchequer gains arising from the introduction of a Minimum Unit Price of 100c per 10g of alcohol, as mentioned in the report of the Tax Strategy Group.

2. What assumptions/parameters do you wish the Department to make/specify?

The tax strategy group report on this matter in 2016 and further referenced in 2017 suggested that the introduction of a minimum unit price in Ireland should await the determination of the Scottish courts, and that there could be impacts on cross-border trade.

We are asking for it to be assumed that the impact on cross-border trade will be negligible, and that the price increases modelled by the Tax Strategy Group serve as the basis for estimating the potential exchequer gains.

Response: It is not possible to cost the additional VAT receipts that would be yielded from the introduction of a minimum unit price of 100c per 10g of alcohol given the information available to Revenue as the volume and price of alcohol sold below this price is not available.

Proposal 14 – National Training Fund Levy

Response from Department of Education and Skills:

Exchequer yield:

Scenario	**First year**	**Full year**
1 (0.1% increase)	€42.5 million	€50 million
2 (0.2% increase)	€85 million	€100 million
3 (0.3% increase)	€127.5 million	€150 million

Note: The National Training Fund levy is used to develop skills among those in employment and those seeking employment – with programmes aligned to the future skills needs in the economy. It is estimated by the Expert Group that each 0.1% increase in the levy could raise at least an additional €50m per annum. In light of higher numbers at work and earnings growth, this estimate might be on the low side. Should employment levels reach those forecasted for 2020, together with an assumption of moderate growth in incomes, National Training Fund revenues in 2020 could yield close to €200m over 2015 levels if the rate is increased from 0.7% to 1%.

The costings are included in the consultation paper on a proposed employer exchequer investment mechanism, available at:

https://www.education.ie/en/Publications/Education-Reports/pub_ed_proposed_exchequer_employer_investment_higher_further_training_2017.pdf

Proposal 15 – Help to Buy and replacement Save to buy scheme

1. Detailed description of item or policy on which a costing is required:

The savings in a full year from the abolition of the Help to Buy scheme with immediate effect in either i) date of Budget or ii) 1st January 2018. To also outline the cost in 2017 to date, and projected full year cost in 2017 of the incentive.

We are proposing the establishment of a 'save to buy' scheme, modelled on the SSIA, but restricted to first-time buyers and operated through a fixed-term savings account available through the post office network. A five year term would apply to these accounts, at the end of which an interest rate of 25% on savings would apply, to a maximum of i) €6,000, ii) €10,000 interest in total over the five years.

2. What assumptions/parameters do you wish the Department to make/specify?

We request costings under two scenarios:

A) The model of the number of first time buyers that would apply for the Help to Buy incentive, assuming that a similar number begin saving every year at the maximum contribution.

B) We wish to assume that the number of first-time buyers would double between now and 2021, at an even annual growth rate; that two-third of first time buyers would avail of this scheme, and that all of those participating would make the maximum contribution.

Response: (i) With data available for the first 8 months of 2017, to-date the Help to Buy scheme has cost in the region of €43 million, with approximately €14.4 million relating to retrospective claims and €28.6 million relating to claims in 2017. Therefore, the estimated saving in 2017 could be of the order of €11 million if the scheme was abolished from the date of the Budget. This assumes claims continue at a consistent rate. (ii) Updated projections for uptake of the Help to Buy scheme in 2018 are not available. The scheme was estimated in Budget 2017 to cost €40 million in 2018. Therefore the estimated saving from abolishing the Help to Buy scheme on the 1st of January 2018 is of the order of €40 million.

Figures on the cost of the Help to Buy Scheme to date are available in Revenue's Help to buy Report which is published on a monthly basis and be accessed at:

http://www.revenue.ie/en/corporate/information-about-revenue/statistics/tax-expenditures/htb.aspx.

The projected full year cost of the scheme in 2017 is €50 million.

In relation to the proposed savings scheme, applying the assumptions as given above, the estimated cost to the Exchequer would be in the region of (i) €360 million and (ii) €600 million. This is based on the number of first time buyers are recorded on Revenue Stamp Duty records for 2016, doubled over to the period to 2021.

Proposal 16 – CGT: Cap on Primary Private Residence Relief

1. Detailed description of item or policy on which a costing is required:

The yield to the Exchequer from capping the primary private residence relief at €1 million.

2. What assumptions/parameters do you wish the Department to make/specify?

That the disposal of all private principal residencies valued at over €1 million would be subject to capital gains tax.

Response: Information on capital gains in respect of the sale of principal private residences is not available and therefore an accurate estimate of the potential yield cannot be provided. However, using capital gains tax information in respect of taxable gains in respect of residences from the 2015 tax returns and sales of residences from the stamp duty system, the potential yield from this measure could be in the region of €25 million in a full year. This yield does not take into account any behavioural change which could be significant if such a measure was introduced.

Proposal 17 – CGT: abolition of Entrepreneurs Relief

1. Detailed description of item or policy on which a costing is required:

The yield to the Exchequer from abolishing Entrepreneurs Relief

2. What assumptions/parameters do you wish the Department to make/specify?

Abolition from 1st January 2018, reverting to 33% rate.

Response: Information is not available on the cost of the relief as the revised entrepreneur relief was only introduced in the 2016 Budget (with a further change in the 2017 Budget) and information will be returned for the first time on the 2016 tax returns which are not due to be filed until later this year. The cost of the scheme (and revised scheme) – totalling an estimated €40m - was published in the 2016 and 2017 budgets and additional information is not available.

Proposal 18 – CGT: Section 604A

1. Detailed description of item or policy on which a costing is required:

The future yield to the Exchequer from abolishing Section 604A modelled by year up to 2021.

2. What assumptions/parameters do you wish the Department to make/specify?

Can the Department outline the projected tax losses to the Exchequer from this tax relief?

Response: Section 604A requires a minimum ownership period of 7 years and the ownership period could not commence earlier than 7 December 2011. This means information on the cost of the relief will not be available until returns for the tax year 2018 have been filed and processed. For this reason it is not possible to provide the potential yield from abolishing the relief.

Proposal 19 – Local Property Tax: second property surcharge

1. Detailed description of item or policy on which a costing is required:

The yield to the Exchequer from applying a surcharge to the local property tax of i) €100 or ii) €200 on every residential property in which the owner did not reside.

Further the yield that would accrue if this surcharge was increased to €500, and only applied to vacant, non-leased residential property.

2. What assumptions/parameters do you wish the Department to make/specify?

The same rules as applied to the NPPR, with the exemption of those who do not reside at the property they own but instead rent out a separate property as their residence. To provide the projected number of vacant, non-leased second properties.

Response: The yield to the Exchequer from applying a surcharge to the Local Property Tax (LPT) of i) €100 is approximately €26m or ii) €200 is approximately €52m on every residential property in which the owner did not reside.

This estimate is based on those properties indicated to be non-principal primary residencies (NPPRs) by owners in their LPT returns. However, as there is no distinction in the tax code regarding vacant properties, it is not possible from Revenue data to separate such NPPRs into vacant, holiday homes, rented out, etc.

Proposal 20 - Changes to VAT rates

1. Detailed description of item or policy on which a costing is required:

A) The cost of reducing the higher VAT rate of 23% by 1%.

B) The cost of reducing the 13.5% VAT rate to 13%.

C) The yield from removing the special 9% of VAT for the tourism related activities, returning it back to 13.5%.

D) The yield for removing the special 9% rate of VAT from hotel accommodation only.

2. What assumptions/parameters do you wish the Department to make/specify?

Those as outlined in the TSG paper on VAT issues.

Response:

The Revenue website contains a Ready Reckoner, which covers amongst other topics the effect of changes to the different VAT rates:

http://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx.

The Ready Reckoner shows a range of scenarios including some of those requested, others can be estimated on a straight-line or pro-rata basis from the information in the Ready Reckoner

As regards D), the yield to the Exchequer from removing the special 9% rate of VAT from hotel accommodation only and applying the VAT rate of 13.5% is estimate at €190m.

Proposal 21 – Commercial Property Stamp Duty

1. Detailed description of item or policy on which a costing is required:

The yield from increasing the rate of stamp duty that applies to commercial property transactions by i) 1% to 3%, and ii) 2% to 4%.

2. What assumptions/parameters do you wish the Department to make/specify?

Applied to all commercial property transactions from the date of the Budget or 1st January 2018 and that the rate increase would not materially impact on future transactions.

Response: The Revenue website contains a Ready Reckoner, which covers amongst other topics an increase of the Stamp Duty rate on non-residential (commercial property). It is located at

http://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx.

The Ready Reckoner shows a range of scenarios including some of those requested, others can be estimated on a straight-line or pro-rata basis from the information in the Ready Reckoner.

Proposal 22 – Tax on sugar-sweetened drinks

1. Detailed description of item or policy on which a costing is required:

The yield from applying a tax on sugar sweetened drinks at a rate per hl of €24.64 (or 10c per can) from both the off, and on trade.

2. What assumptions/parameters do you wish the Department to make/specify?

The assumptions and parameters applied by the TSG in 2016 updated for 2018.

Response: The 2016 Tax Strategy papers estimated potential yields from a tax on sugar sweetened drinks based on total soft drink sales in Ireland of 685.4 million litres per annum. The TSG papers estimated that the tax would apply to 60% of these sales at the time. However, it is now expected that the tax will apply to much less than 60% of these sales as the soft drinks industry continue to reformulate their products, reducing sugar content. Accordingly it is difficult to estimate accurately the expected tax yield. However, it is likely that a tax on sugar sweetened beverages, levied at 10c on a 330ml can, could yield in the region of €40m in a full year.

Proposal 23 – Tobacco Products Tax

1. Detailed description of item or policy on which a costing is required:

Can the Department confirm that a 20c increase per pack of 20 cigarettes with an additional 50% for RYO would yield €25.7m in 2018? What would the additional yield be if duty on RYO was equalized with duty on cigarettes?

Can it also be outlined what the additional yield would be if a minimum sale price of €10 per pack of 20 cigarettes was introduced, with an equivalent minimum sale price for RYO, by applying a minimum excise duty.

2. What assumptions/parameters do you wish the Department to make/specify?

Apply the same parameters as used in TSG paper.

Response: A 20c increase per pack of 20 cigarettes with an additional 50% for RYO would yield an estimated €25.7m in 2018. However, this estimate may not fully reflect the change in behaviour of smokers following duty increases.

If duty on RYO was equalized with duty on cigarettes the additional yield is estimated at €50m in a full year. This estimate is based on the Excise content for a 20 pack of cigarettes at the current most popular price category of €11.50 and it may not fully reflect the change in behaviour of smokers following any such increase.

It is not possible under EU law to introduce a minimum sale price for tobacco products. The ECJ has ruled in case C-221/08 (against Ireland), that it is not possible for a Member State to impose a minimum selling price for cigarettes. Directive 2011/64/EU allows however, for the application of a minimum excise duty on cigarettes, provided for by the mixed structure of the tax (that is, the specific and ad valorem components) is respected. On 1 May 2012, Ireland introduced a minimum excise duty which is the minimum tax which must be paid irrespective of the price at which cigarettes are sold. This rate currently amounts to €325.11 per 1,000 cigarettes.

Proposal 24 – Environmental Taxes

1. Detailed description of item or policy on which a costing is required:

Confirm the costings as outlined in TSG paper 17-08 as follows:

A. ***Aggregates Levy:*** *As proposed in the TSG paper 17-08 can it be confirmed that a levy of €2.50 per tonne on aggregates would yield €75m.*

B. **BIK Electric Cars:** As discussed in TSG paper 17-08 can the cost of applying a 0% benefit in kind rate for 5 years to electric cars be costed per year.

C. **Diesel Excise:** confirm costings in TSG 17-08 of a €68m per year initial yield over 5 years from equalizing petrol and diesel excise rates.

D. Carbon Tax. Confirm if a pro-rate €1 per tonne increase in carbon tax would yield €22.08m versus a €5 per tonne increase yielding €110.4m

E. **Electricity Tax**: Confirm as per TS 17-08 that equalisation of electricity tax for business and non-business would yield €4.5 million per year.

2. What assumptions/parameters do you wish the Department to make/specify?

The assumptions and parameters applied by the TSG.

Response:

A. **Aggregates Levy:** It is difficult to estimate the yield the introduction of an Aggregates Levy would generate for the Exchequer. However, based on an industry assessment that there was approximately 30 million of aggregate produced for sale in 2016, if a levy was introduced at €2.50 per tonne, and assuming no change in behaviour this, would yield €75m. However, the intention of this tax is to encourage recycling and it is unlikely that the actual yield would reach €75m.

B. **BIK Electric Cars:** The cost of implementing a BIK rate of 0% on the most popular EV on the Irish market is over €4,627 per annum for those using the vehicle for less than 24,000km.

It is difficult to estimate the number of EVs which may avail of a 0% rate should it be introduced, however, it can be assumed that per 1,000 vehicles the cost of tax foregone would be €4.6m per annum.

C. **Diesel Excise:** The costing in TSG 17-08 of a €68m initial year yield from equalizing petrol and diesel excise rates over 5 years is correct.

D. **Carbon Tax.** A €1 per tonne increase in carbon tax would yield €22.2m versus a €5 per tonne increase yielding €110.4m in a full year.

E. **Electricity Tax:** As per TSG 17-08, equalisation of electricity tax for business and non-business would yield €4.5 million per year.

Proposal 25 – Reusable Plastic Bag Levy

1. Detailed description of item or policy on which a costing is required:

A plastic bag levy of 0.22 cent applies to bags provided by retailers to customers. Reusable plastic bags sold for 70 cent or more are exempt from the levy. These have become very popular with food retailers, replacing other resuable bags made from cotton, jute and paper, and sold at an extensive mark up. What would the yield be from a levy of 70 cent on every reusable plastic bag sold?

2. What assumptions/parameters do you wish the Department to make/specify?

That sales of reusable plastic bags would remain at current levels.

Response: As returns filed with Revenue do not record the number of reusable plastic bags sold (or any other indication of bags sold beyond those to which the 22 cent charge applies), Revenue has no basis on which to estimate the costing proposed.

Proposal 26 – Online Advertising Levy

1. Detailed description of item or policy on which a costing is required:

The yield that arise from a 1% levy placed on all online, digital advertising in Ireland before VAT.

2. What assumptions/parameters do you wish the Department to make/specify?

That all those placing online and digital advertising in Ireland would be charged a 1% levy before VAT, to be collected through those merchants providing the service. The levy would not be tax deductible or eligible as a trading expense.

Response: As returns filed with Revenue do not record the amount or value of online digital advertising (this information is not required to be provided on VAT returns), Revenue has no basis on which to estimate the costing proposed.

Proposal 27 – Compliance Activity

1. Detailed description of item or policy on which a costing is required:

The yield that arise from an extra allocation of €10million to the Revenue Commissioners for extra staff and IT investment targeted at securing increased compliance, and use of big data, data analytics and a clampdown on bogus self-employment.

2. What assumptions/parameters do you wish the Department to make/specify?

The same assumptions as used in Budget 2017.

Revenue Response: Based on Revenue's Comprehensive Review of Expenditure 2014:

http://www.revenue.ie/en/corporate/documents/governance/comprehensive-expenditure-review2014.pdf,

it is estimated that the cost for 200 Full Time Equivalent staff is around €10m per annum. The table below shows the estimated yield of additional qualified Revenue staff to target evasion and black market activity in different areas.

	Number of Staff (Full Time Equivalent)	Year 1	Year 2	Year 3	Year 4	Year 5
Audit resource	100	€25m	€50m	€50m	€50m	€50m
Compliance project resource on areas such as oils, tobacco, alcohol	25	€2.5m	€5m	€5m	€5m	€5m

The CRE 2014 also includes a number of other estimates of potential savings from increased investment, such investment of around €1m per annum in the use of analytics to detect fraud generating savings of €5m.

Finance Note: Revenue have advised us that since the request doesn't specify how the €10m is to be distributed, that they felt better to give options. You might opt for the 200 additional FTE's as 2 x 100 auditors or 1 x 100 auditors + 4 x 25 compliance project resources. Or as noted in the previous paragraph, there are other options like investment in analytics. Essentially Revenue have opted to provide a sort of "menu" for you to draw from.

Proposal 28 – Bank Levy

1. Detailed description of item or policy on which a costing is required:

   The yield that arise from a doubling of the current rate of the bank levy to achieve an increase from €150 million, to €300 million.

2. What assumptions/parameters do you wish the Department to make/specify?

   To provide the formula on how the bank levy is determined, and the individual amounts that each institution would be required to pay if the total levy was doubled.

Response: In accordance with Section 126AA of the Stamp Duties Consolidation Act 1999, an annual levy was imposed on certain financial institutions for each of the years 2014, 2015 and 2016. The levy was charged at 35% of the Deposit Interest Retention Tax (DIRT) paid by a financial institution in 2011 and raises approximately €150 million annually for the Exchequer. In the case of a financial institution where the amount of DIRT in the base year does not exceed €100,000, the levy is not payable.

In the budget statement two years ago, the Minister announced that he intended to extend the levy for a further five years to 2021. He indicated that the overall yield from the levy would be maintained at €150 million annually but that he would undertake a review of the DIRT based methodology for calculating the levy.

That review, which included a public consultation on the issue, was undertaken by the Department in early 2016. Following that review, the Minister decided that the DIRT based formula should be retained but that the base year for calculating the levy in 2017 and 2018 would be changed from 2011 to 2015. The Minister also decided to introduce a rolling two-year series of base years which will introduce a new base year of 2017 for calculating the levy in 2019 and 2020 and a new base year of 2019 for calculating the levy in 2021.

The introduction of the rolling two-year series of base years has a twofold effect. Firstly, it ensures that financial institutions entering the market over the five further years for which the levy will apply will be subject to the levy and financial institutions exiting the market will cease to be subject to the levy. Secondly, it will help to correct, on an ongoing basis, any anomalies for individual institutions thrown up by prevailing market conditions, such as the interest rate offering, in any one year.

In order to maintain the annual yield from the levy at €150 million, it was necessary to increase the rate at which the levy is charged from 35% to 59% for 2017. This is because the assessable amount, DIRT payments in 2015, have reduced significantly since 2011. This new rate, combined with the new 2015 base year, will preserve the existing contribution of €150 million paid by the affected financial institutions. That rate will be subject to review to ensure that the yield from the levy is not impacted from changes in interest rates and/or DIRT rates.

The current rate is 59% of the amount paid in DIRT by accounts within each institution in 2015.

We are unable to provide the individual amounts that each institution would be required to pay if the total levy was doubled, as to do so would constitute a breach of taxpayer confidentiality.

POLITICAL PARTY PRSI COSTINGS NO. 2017-3(a)

COSTINGS OF PRSI PROPOSALS

A. Estimates are based on macro-economic indicators for 2018 only.
B. The estimates affecting employed contributors are based on the changes to social insurance contributions paid under PRSI Class A only.
C. Estimates of full year costs/yields are provided. First year costs/yields are a function of the chosen implementation date of PRSI changes in 2018 or in the relevant year. If implemented in January of the particular year, it is estimated that 85% of the full year estimate is realised in the first year.
D. The estimates do not take possible changes in employer or employee behaviour into account

5. PRSI: Expansion of PRSI relief for low and middle income earners

1. Detailed description of item or policy on which a costing is required:

A PRSI credit was introduced in Budget 2016 in order to ameliorate the 'step effect' experienced by employees whose income is just over the threshold for liability to PRSI. We wish to explore the expansion of this credit providing relief of a maximum of €14 per week on incomes under €704 per week, or €36,608 per year. The tapering of this measure should apply at a rate of 4% per €1k income.

2. What assumptions/parameters do you wish the Department to make/specify?

The impact of this measure on individuals at the below salary levels should be included in the detail provided on this costing:

€18,305

€25,000

€30,000

€35,000

€36,608

Response: A PRSI credit was introduced in Budget 2016 in order to ameliorate the 'step effect' experienced by employees whose income is just over the threshold for liability to PRSI.

"We wish to explore the expansion of this credit providing relief of a maximum of €14 per week on incomes under €704 per week, or €36,608 per year. The tapering of this measure should apply at a rate of 4% per €1k income."

Cost	**Employments affected**
€90.8m	612,960

Department of Employment Affairs and Social Protection